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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS: BANGLADESH

REF: STATE 53993; OECD PARIS 13523, MAY 17, 1973

THERE FOLLOW THE STATEMENT ON INVESTMENT CLIMATE IN BANGLADESH REQUESTED BY REFTEL (PART I, IN FULL SENTENCES) AND SUCH STATISTICS AS ARE AVAILABLE ON QUANTUM OF FOREIGN INVESTMENT HERE (PART II, IN TELEGRAPHES).

I. FOREIGN INVESTMENT CLIMATE IN BANGLADESH

A. THOUGH REASONABLE ENOUGH AS DESCRIBED IN POLICY, THE INVESTMENT ENVIRONMENT OF BANGLADESH IS NOT ENCOURAGING AND HAS ATTRACTED NO SIGNIFICANT NEW FOREIGN PRIVATE INVESTMENT SINCE INDEPENDENCE IN DECEMBER 1971. AN INDUSTRIAL INVESTMENT POLICY WAS PROMULGATED IN JANUARY 1973 WHICH WELCOMES FOREIGN INVESTMENT BUT ONLY IN PARTNERSHIP WITH PUBLIC-SECTOR ENTERPRISES AND ONLY UP TO 49 PERCENT OF EQUITY. ALL MAJOR INDUSTRY HAS BEEN NATIONALIZED, AND PRIVATE-SECTOR FIRMS ARE ALLOWED TO BUILD UP ASSETS ONLY TO AROUND THE EQUIVALENT OF \$470,000 IN VALUE. FOREIGN COLLABORATION WITH THESE

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FIRMS IS RESTRICTED TO LICENSING AND PATENTING.

B. A MORATORIUM HAS BEEN PLACED ON FURTHER NATIONALIZATION OF EXISTING ENTERPRISES FOR 10 YEARS AND OF ALL NEW PLANTS FOR 10 YEARS AFTER STARTUP. ON PAST NATIONALIZATION, THE BANGLADESH GOVERNMENT IS COMMITTED TO PROVIDE COMPENSATION, BUT A SPECIFIC COMPENSATION POLICY HAS NOT YET BEEN FINALIZED. A NUMBER OF BRITISH AND AMERICAN FIRMS HAVE FILED CLAIMS FOR COMPENSATION, BUT TO DATE THERE HAS BEEN NO OFFICIAL GOVERNMENT REACTION.

C. THE INVESTMENT POLICY DOES ALLOW FOR MANAGEMENT CONTRACTS WITH THE FOREIGN PARTNERS IN A PUBLIC-SECTOR JOINT VENTURE, FOR A GIVEN PERIOD UNTIL BENGALLEES ARE ADEQUATELY TRAINED UP. THERE IS ALSO PROVISION FOR REMITTANCES OF PROFIT AND REPATRIATION OF CAPITAL (AFTER 10 YEARS OF STARTUP). BECAUSE OF ACUTE FOREIGN-EXCHANGE CONSTRAINTS AND DELAYS IN THE FORMULATION OF A REMITTANCE POLICY, NO FOREIGN FIRMS NOW HERE HAVE YET BEEN ABLE TO REMIT PROFITS.

D. THE NEW FIVE-YEAR PLAN (FY 1974-78) PROVIDES FOREIGN INVESTORS WITH AN INCOME TAX HOLIDAY FOR FIVE YEARS ON REINVESTMENT OF 50 PERCENT OF PROFIT, AND EXEMPTION FROM TAXATION FOR JOINT VENTURES WHICH EXPORT 100 PERCENT OF THEIR OUTPUT. NO REGULATIONS HOWEVER HAVE YET BEEN ISSUED GIVING LEGAL FORCE TO THESE INCENTIVES. OTHER INCENTIVES ARE OFFERED TOWARD THE ESTABLISHMENT OF INDUSTRY IN UNDEVELOPED AREAS. ENCOURAGEMENT IS GIVEN INDUSTRY THAT VARIOUSLY IS LABOR-INTENSIVE, AGRO-BASED, EXPORT-ORIENTED AND/OR IMPORT-SUBSTITUTIVE.

E. TAX, TARIFF AND SUBSIDY POLICIES AFFECTING FOREIGN INVESTMENT ARE NOT INHIBITIVE. THE LABOR POLICY PROHIBITS STRIKES IN THE PUBLIC SECTOR BUT IS UNDER REVISION. UNIONS ARE TO BE ASSOCIATED IN MANAGEMENT COUNCILS OF PUBLIC-SECTOR UNDERTAKINGS, BUT NO COUNCIL HAS YET BEEN ESTABLISHED. THE FIVE-YEAR PLAN SPEAKS OF GOVERNMENT MECHANISMS WHICH WILL GUIDE PRICING IN PUBLIC-SECTOR INDUSTRY AND REQUIRE A SET RATE OF PROFIT TO BE PASSED TO GOVERNMENT.

F. RECENT DEVELOPMENTS-THE MAIN DISINCENTIVE TO FOREIGN INVESTMENT IN BANGLADESH RESIDES NOT SO MUCH IN THE INVESTMENT POLICY PER SE AS IN THE LACK OF ORGANIZATION OF THE ECONOMY AND THE CURRENT STAGNATION IN AGRICULTURAL/INDUSTRIAL AND TRADE DEVELOPMENT. A WIDE NUMBER OF OIL COMPANIES HOWEVER ARE SEEKING RIGHTS TO EXPLORE LARGELY OFFSHORE. BANGLADESH IS SLOWLY LEARNING FROM THE MISTAKES MADE IN ITS INITIAL HEADLONG PLUNGE INTO NATIONALIZATION AND THE ESTABLISHMENT OF A SOCIALIST ORDER. EFFECTIVE INCENTIVES TO FOREIGN INVESTMENT MAY FLOW FROM GROWING PRAGMATISM ON THE PART LIMITED OFFICIAL USE

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OF GOVERNMENT. THE US HAS PROPOSED REVIVAL OF THE OPIC AGREEMENT, AND A TREATY OF FRIENDSHIP, COMMERCE, AND NAVIGATION IS UNDER CONSIDERATION. FOREIGN AID CONTINUES AT FAIRLY HIGH LEVELS.

II. INVESTMENT STATISTICS-NO DATA PUBLISHED; FOLLOWING ARE EMBASSY ESTIMATES.

A. US DIRECT INVESTMENT IN BANGLADESH AT END 1972 ABOUT \$16 MILLION TOTAL BOOK VALUE. THIS REPRESENTS REFINEMENT OF PREVIOUS

ESTIMATE OF \$10 MILLION. BREAKDOWN BY SECTORS AGAIN WILL LEAD TO IDENTIFICATION OF INVESTMENT OF SINGLE COMPANY, ESSO, IN THE MAJOR COMPONENT, PETROLEUM. FOR DEPARTMENT'S INFORMATION ONLY, POST COMPUTATION IS AS FOLLOWS. BEGIN LIMITED OFFICIAL USE.

I. MINING AND SMELTING: NONE

II. PETROLEUM: ESSO, INCLUDING SHARE IN STANDARD ASIATIC OIL LUBE BLENDING PLANT - \$4.3 MILLION CLAIMED BOOK VALUE IN CURRENT SELL-OUT NEGOTIATIONS WITH BDG; CF. PREVIOUS ESTIMATE OF \$2.5 MILLION.

III. MANUFACTURING: TOTAL \$9.2 MILLION, INCLUDING SQUIBB \$1.8 MILLION; PFIZER ESTIMATED \$2.4 MILLION; SINGER \$1.0 MILLION

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